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C O N F I D E N T I A L SECTION 01 OF 02 QUITO 002049

SIPDIS

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TAGS: [PGOV](#) [PREL](#) [EC](#)

SUBJECT: SCANDAL TARNISHES PALACIO GOVERNMENT

Classified By: PolChief Erik Hall, for reason 1.4 (b&d).

11. (C) Summary: President Palacio has moved quickly to stem the damage caused by a widening forgery and position-selling scandal by firing implicated advisors inside the office of the presidency. Coming on the heels of damaging strikes, the scandal has weakened the Palacio government's image and emboldened Congress. That could have negative consequences for Palacio's embattled Government Minister, and Palacio's political reform proposals, which must pass through Congress. Palacio is clearly not willing to concede to his detractors--VP Serrano told the Ambassador on August 31 that the reforms are on track to pass through the Congress shortly, and be put to a referendum by the end of November. End Summary.

Plenty of Smoke

12. (U) The influence-peddling allegations center on the activities of presidential advisors and their support staff, who allegedly forged the president's signature on documents involving government positions, which were sold to individuals for personal gain. The story broke over a week ago, when a disgruntled Esmeraldan, Jose Velasquez, told the press that jobs were being sold by presidential advisors. Velasquez was upset because the job he sought to purchase for Miguel Robalino, as director of a state health enterprise, Modersa, had not been delivered. Gustavo Pacheco, the husband of PRE congressional deputy Silvana Ibarra, is also under investigation.

13. (U) On August 26, eight lower-tier presidential advisors (Homer Cervantes, Julio Cisneros, Damian Velasco, Juan Antonio Lopez, Yuri Baque, Andres Falquez, Raul Ledesma and Enrique Ponce--none Embassy contacts) were rapidly suspended pending an official investigation. Two other presidential advisors Gustavo Mino and Eduardo Armijos, subsequently resigned. Miguel Robalino, a Gutierrez appointee to Petroecuador, was taken into custody by authorities on September 1 after giving testimony in the case. The president's military aide de camp, Fausto Bravo, also implicated in the scheme, immediately fled across the border to Peru. He later returned to face discipline for abandoning his duties (nine days in the stockade) and investigation of his role in the scandal.

14. (C) Presidential sibling Gustavo Palacio told DCM on September 1 that those implicated in the scandal were junior staffers, not bona fide presidential advisors. He was emotional when admitting that their corruption was real and would damage his brother's reputation. He acknowledged that this was not the first example of corruption in his brother's administration (he cited the resignation of the former Solidarity Fund chief, Marcelo Arcos).

Congress Sniffs Opportunity

15. (C) With Palacio's touted personal credibility under fire, coming on the heels of disastrous strikes in two oil-producing provinces, members of the always-discredited Congress sense an opportunity to make gains at the president's expense. Their first target is unpopular government minister Mauricio Gandara, blamed for mishandling the strikes in Manabi, Sucumbios and Orellana. Fringe-left MPD deputies have launched an impeachment attempt, which has been joined by the Democratic Left (ID) party. The Social Christian party recently announced its support, but on different grounds to be determined. (Note: impeachment is today a symbolic, non-binding process--only the president has authority to dismiss his Cabinet.) Presidential sibling Palacio admitted that Gandara was likely to be asked to leave.

Battle Brewing over Political Reforms

16. (C) Vice President Alejandro Serrano told the Ambassador and DCM in a courtesy call on August 31 that the number one reform suggestion among the 48,000 received through his citizen outreach program is to reduce the size of Congress, reflecting the low repute in which that institution is held by the public. At the president's urging, the referendum process would be speeded up; he planned to send an initial version of referendum questions to the president the first week of September.

17. (C) The referendum would go to Congress for an up or down vote, Serrano first claimed. He subsequently acknowledged that Congress could also individually reject objectionable questions within the proposed referendum. ID congressional bench leader Jorge Sanchez told PolChief on August 30 that with Palacio wounded by scandal and inept handling of the strikes, Congress would act independently to pass consensus reforms, and not be a passive participant in the president's reform proposals.

Supreme Court Selection Process Vulnerable -----

18. (C) In addition to a question about the size of Congress, Serrano believed it essential to include one ratifying the extra-constitutional process to conform a new Supreme Court. That process was moving forward, albeit haltingly, but required additional protection from possible challenge by a future government or Congress. (Comment: We have heard the same argument from UN Rapporteur Leandro Despuy, whose recommendations have been heeded by the GOE and the selection committee thus far.)

19. (C) OAS international judicial experts visiting Ecuador told the DCM on August 26 that their week in Ecuador had "seemed like a year." Costa Rican human rights expert Sonia Picado and Chilean Senator Jose Antonio Viera Gallo said their assistance had helped overcome opposition by the National Judicial Council, which had blocked funding for the committee out of self-interest (once a new court is selected, the Council will be replaced). After intervention by the Solicitor General and Finance Minister, \$500,000 was provided for the committee, which hopes to select the new court by the end of October.

Comment -----

10. (C) With details of the scandal still emerging it is too early to tell whether the net will eventually snare the president himself. Key advisors have been released and others, including presidential secretary Luis Herreria, damaged by association. How badly the scandal hits the presidency is largely in the hands of the attorney general, a sometime ally of PSC leader Leon Febres Cordero. At this point, we have no indication that LFC intends to bring down the Palacio government. Gandara, a longtime rival of Febres Cordero, is the more likely casualty. Political reforms are also likely to be conditioned on compromise with PSC and the ID, Palacio's current lifelines.
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